National Commission on Fiscal Responsibility and Reform

Jul 1, 2010

Thank you for this opportunity to testify on behalf of the Peter G. Peterson Foundation, a non-partisan, non-profit organization dedicated to increasing awareness of – and action on – America's large and growing fiscal challenges.

I would like to begin by commending the Members of the Commission and President Obama for the establishment of this Commission. Your efforts to address our nation's deteriorating financial condition and growing fiscal challenges are of critical importance to our nation's and our families' futures.

While we are willing to provide input on a range of issues, due to limited time, my testimony today will focus on dispelling one particular myth that represents perhaps the biggest obstacle to moving the nation forward from an economic and fiscal perspective. That is, the myth that we cannot address our current economic crisis and our long-term fiscal crisis at the same time. Indeed, not only is this practicable, it can be prudent and may be necessary given the current state of affairs.

America finds itself in a deeply difficult and increasingly complex fiscal situation. On the one hand, our economic recovery has not been as vigorous as we had hoped or needed it to be. Unemployment remains dangerously and stubbornly high, consumer spending is tepid, the housing market remains weak and many Americans continue to feel that our country is headed in the wrong direction. As a nation, we lack confidence in the future of the economy.

On the other hand, we face a very real threat to our collective future in the large, growing and longer-term structural deficits that will exist after the economy has recovered, after unemployment levels have declined, after the wars are over and long after our recent financial services and housing crises have past. These structural deficits are driven largely by the tens of trillions in off-balance sheet obligations, including over $38 trillion and almost $8 trillion relating to the Medicare and Social Security programs, respectively, as per the federal government's September 30, 2009 consolidated financial statements.

We must begin to address these structural deficits. Otherwise, we risk losing the confidence of our foreign lenders. If that happens, interest rates could increase dramatically and the dollar could decline quickly. This would have a serious and adverse effect on the federal budget, our economy and the security and well being of American families. It would also result in serious economic disruption not only in the U.S., but around the globe.
We must also be mindful of the fragile economic recovery and the millions of Americans who are out of work and in need of temporary assistance. The difficult and necessary work we must do to solve our longer-term fiscal challenges – cutting spending, raising revenues and reforming government – must not do further harm to our economy or our citizens.

So, how do we reconcile these two important objectives?

In our view, the answer is to continue to pursue selected short-term initiatives designed to stimulate the economy and address unemployment, but to couple these actions with specific, meaningful actions designed to resolve our long-term structural deficits. Only through real legislative and other actions by the Congress and the President can we send a clear message that America is committed to return to a prudent fiscal path.

To ease the economic pain of unemployed and underemployed Americans and to avoid a “double dip” recession, we can and should pursue targeted and short-term initiatives that are temporary, properly designed, appropriately conditioned and effectively implemented. Simultaneously with these initiatives, Congress and the Administration should design and implement a plan to address our longer-term challenges that would go into effect automatically at an appropriate point in time (e.g., once the economy has recovered and unemployment declines to a stated level).

Everything should be on the table for consideration for this plan, including tougher statutory budget controls, spending cuts and revenue increases. Given the magnitude of future obligations, entitlement reform must be part of the package, but in a way that strengthens and secures our nation's important social safety net in a sustainable manner. Defense spending reductions should also be considered. And because addressing this challenge with spending cuts alone would devastate our social insurance programs and reduce other important public investments, meaningful revenue increases should also be part any overall reform effort. We should also re-examine the many so-called “tax expenditures” that take revenue out of the system.

What is important is that America's commitment to reform is real and based on concrete actions rather than words or processes alone. So under this approach, there should be an objective measure of our economic health and employment that would automatically trigger the commencement of these reforms. This commitment could in fact help stimulate the short-term recovery due to the confidence that it would build around the world.

In summary, we must work simultaneously to grow the economy and get our fiscal house in order. This may be counterintuitive to some in Washington who want to focus only on one challenge or the other, but as the American people know, we are entirely capable of doing two things at the same time.

In fact, they demonstrated this very recently through one of our foundation’s important initiatives. A few days ago, on June 26th, more than 3,500 people in 19 cities and other communities participated in a national citizen engagement exercise organized by AmericaSpeaks to discuss the nation’s fiscal challenges in a series of real and virtual town hall meetings. This was the largest and most representative event ever conducted regarding our nation's fiscal challenges. And it took place on a Saturday.

Thousands of Americans gave up part of their weekend because they are highly concerned about – and fully engaged in – solving our long-term fiscal crisis. When presented with the facts, the American people understand that we face a range of serious sustainability issues that threaten our country's future. And they see no reason why their elected leaders cannot meet the challenges of both our short-term economic recovery and our long-term fiscal crisis at the same time. To families across the nation, these are simply two sides of the same coin.

We at the Peterson Foundation believe that Washington must begin to take corrective measures with equal regard for our citizens who continue to struggle during this time of recovery as well as for our children who are
depending on us to leave them a strong, sound and secure nation. We fully support the efforts of this commission in raising awareness about, and proposing solutions to meet, our fiscal challenges. And we stand ready to assist you in this critical effort.

Thank you.

Fiscal Outlook

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We must begin to address these structural deficits. Otherwise, we risk losing the confidence of our foreign lenders. If that happens, interest rates could increase dramatically and the dollar could decline quickly. This would have a serious and adverse effect on the federal budget, our economy and the security and well being of American families. It would also result in serious economic disruption not only in the U.S., but around the globe.

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